

Message Text

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60

ACTION TRSE-00

INFO OCT-01 EA-11 ISO-00 NEA-10 IO-14 H-03 L-03 PRS-01

PA-04 USIA-15 SPC-03 SAM-01 AID-20 EB-11 NSC-10

RSC-01 CIEP-02 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 DRC-01 /180 W

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R 270621Z FEB 74

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 1379

INFO AMEMBASSY SEOUL

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USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS: 12/31/74

TAGS: EAID, EFIN, KS

SUBJECT: ADB LOAN FOR THIRD KOREA DEVELOPMENT BANK PROJECT

REFS: (A) TREASURY 6973; (B) MANILA 1448

1. NAC COMMENTS (REF A) DID NOT REACH USADB UNTIL AFTER BOARD DISCUSSION SUBJECT LOAN CONCLUDED, BUT PRIOR USADB DISCUSSIONS WITH BANK STAFF AS WELL AS GENERAL DISCUSSIONS AT BOARD THOROUGHLY COVERED POINTS RAISED REFTEL. SPECIFICALLY, BANK AWARE OF KDB POOR FINANCING PERFORMANCE IN THE PAST BUT EMPHASIZES THAT PERFORMANCE EXPECTED TO IMPROVE SINCE (A) GOVT WILL GUARANTEE ONE PERCENT INTEREST SPREAD ON NATIONAL INVESTMENT FUND (NIF) RELENDING ALONG WITH PHASING DOWN ON HIGH-COST BORROWING THROUGH INDUSTRIAL
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FINANCE DEBENTURES (IFD) AND (B) MAINTENANCE OF MEASURES

SUCCESSFULLY EMPLOYED TO REDUCE ARREARAGES, E.G., GOVT DECREE PRECLUDING FIRMS WITH OVERDUE LOANS FROM ADDITIONAL KDB BORROWING. FURTHERMORE, WITH RESPECT TO DEBT/EQUITY RATIO ADB STAFF POINT OUT THAT 7:1 CEILING RATIO FOR KDB IN LINE WITH THAT ACCEPTED BY BANK IN CASE OF OTHER INSTITUTIONS RECEIVING ADB LOANS, E.G., PRIVATE DEVELOPMENT CORPORATION OF THE PHILIPPINES WITH 7.5:1 RATIO AND DEVELOPMENT BANK OF SINGAPORE WITH 7:1 RATIO RESPECTIVELY.

2. WITH RESPECT TO ISSUE RAISED IN REFTEL REGARDING KOREAN GOVT INFLUENCE OVER KDB ACTIVITIES, BANK FULLY ACKNOWLEDGES INHERENT PROBLEM BUT POINTS OUT THAT POLICY PAPER ON ADB LENDING TO NATIONAL DEVELOPMENT BANKS IN PROCESS OF PREPARATION AND WILL BE DISTRIBUTED TO BOARD FOR DISCUSSION IN THE VERY NEAR FUTURE. AT THAT TIME, USADB WILL HAVE OPPORTUNITY TO RAISE ISSUE FOR DISCUSSION AS DEEMED APPROPRIATE. CURRENTLY, BANK HAS NO DEFINITE POLICY DIRECTING ITS LENDING EFFORTS EITHER EXCLUSIVELY TO PRIVATE NATIONAL DEVELOPMENT BANK OR TO MIXED PRIVATE/PUBLIC DEVELOPMENT BANK SUCH AS KDB. IN ADDITION, POLICY PAPER WILL ADDRESS ISSUE OF APPROPRIATE DEBT/EQUITY RATIO FOR VARIOUS TYPES OF INSTITUTIONS.

3. FYI: USADB UNDERSTANDS CONSORTIUM OF U.S. BANKS HEADED BY FIRST NATIONAL CITY BANK HAS AGREED TO LEND KDB US\$80 MILLION FOR TEN-YEAR PERIOD AT INTEREST RATE OF ONE PERCENT OVER LONDON INTERBANK SIX-MONTH RATE WITHOUT REPEAT WITHOUT GOVT GUARANTEE. END FYI.
SULLIVAN

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30 JUN 2005

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